

the aftermarket analyst

A PUBLICATION FOCUSED ON MERGERS, ACQUISITIONS AND CORPORATE FINANCE IN THE AUTOMOTIVE AFTERMARKET INDUSTRY

Aftermarket Investor Spotlight: Pendergast Partners, LLC

As reported in last month's issue, several US Private Equity Firms (PEGs) have initiated efforts to invest in smaller private companies (e.g., those with \$10 million in revenues). Importantly, many of these PEGs have contacted Capstone about investments in the auto aftermarket.

One such group is Pendergast Partners (PPL), a private equity group focused on buying small companies where it can use its distribution, supply chain and financial skills to improve operating income. The firm invests primarily partner-related capital in companies in highly fragmented industries characterized by a large number of products going to a large number of end-users, such as the performance automotive aftermarket.

PPL contacted Capstone about aftermarket investments and subsequently visited its home office to refine a strategy. These discussions led to a finite set of investment variables and has already resulted in a "deal on the table." Such is the process whereby many ideas and acquisitions originate.

Kim Pendergast, founder of the firm, started by taking her distribution experience and purchasing the book distribution assets of Random House in order to serve small book publishers. She built the company to \$70 million in sales in less than a year.

Dan Gresham, a long time colleague of Kim's, introduced the firm to the automotive aftermarket after a very successful experience managing and owning Dynojet. He

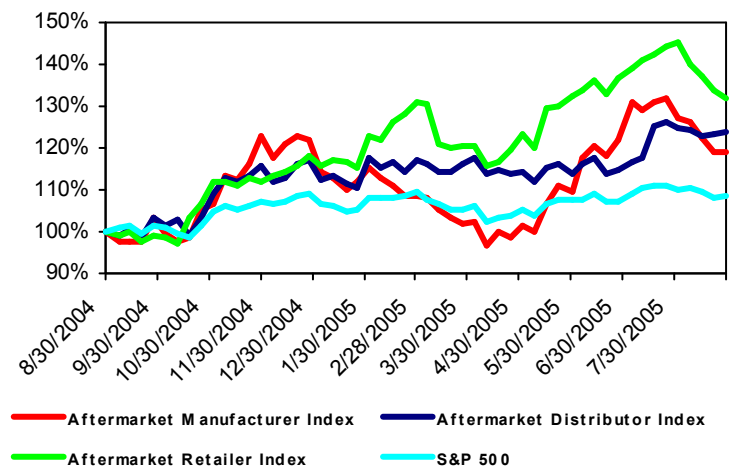
(Continued on page 3, See "Pendergast")

Auto Aftermarket Stocks Trounce S&P 500 Over Last Twelve Months

Auto aftermarket stocks have significantly outperformed the S&P 500 over the last year. Retailers were the strongest performers in the industry during the 12 months ended August 30, 2005. Through this period, Capstone's index of auto aftermarket retailers increased 32.1 percent, 23.6 points more than the S&P 500 8.5 percent gain.

Aftermarket distributors and manufacturers also outpaced the S&P 500. Capstone's indexes of aftermarket distributors and manufacturers posted annual gains of 23.8 percent and 18.9 percent, respectively.

**Auto Aftermarket Indexed
Stock Price Performance (Last 12 Months)**



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RECENTLY ANNOUNCED AUTOMOTIVE AFTERMARKET TRANSACTIONS

Announce Date	Acquirer/Investor(s)	Target	Target Description	Firm Value (\$mil.)	Rev. FV / Rev.	EBITDA FV / EBITDA
9/23/2005	The Carlyle Group	AxleTech International Corp.	Manufacturer of heavy-duty axles, brakes, and after-market parts	\$350.0	—	\$38.9 9.00x
9/20/2005	Sumitomo Corporation	TBC Corporation	Marketers of automotive replacement tires in the U.S.	1,100.0	1913.8 0.57x	105.3 10.45x
9/19/2005	Allied Lube, Inc.	68 Jiffy Lube International-owned service centers in the greater Houston, Dallas - Fort Worth and San Antonio	Fast oil-change service provider	—	—	—
9/15/2005	Advance Auto Parts, Inc.	Autopart International, Inc.	Provides replacement automotive parts to the growing do-it-for-me commercial market, as well as to warehouse distributors and jobbers	—	90.0	—
9/14/2005	The Anderson Group	Hastings Manufacturing	Manufacturer of piston rings	—	—	—
9/7/2005	Parker Hannifin Corp.	Filtran Aftermarket Products Inc.	Supplier of aftermarket components used in the rebuilding of automotive transmissions	—	33.0	—
9/2/2005	LKQ Corp.	Independent Auto Parts and Mid-State Aftermarket Parts	Provide collision automotive replacement parts	13.7	16.6 0.80x	—
9/1/2005	A team of Autospecialty executives	Power Stop line of performance brake products	Manufacturer of performance friction, rotors, caliper, and ceramic brake pads	—	—	—
9/1/2005	Fisher Auto Parts	Cap's Auto Parts	Distributor of auto parts with over 300 locations	—	—	—
9/1/2005	Linsalata Capital Partners	Transtar Industries	Distributor of aftermarket transmission repair parts and a manufacturer of automotive refinishing products	—	250.0 —	—
8/23/2005	Graham Partners and Allied Capital Corp.	Line-X Spray-On Bed Liners	Manufacturer of spray-on truck bed liners	—	—	—
8/22/2005	Terry Seikel and Crystal Ridge Partners	A.R.E., Inc. (minority investment)	Manufacturer of fiberglass truck caps and hard tonneau covers	—	—	—
8/15/2005	Eaton Corp.	Tractech Holdings Inc	Manufactures highly specialized traction-modifying differentials and centrifugal clutches for the agricultural, construction, medium- and heavy-duty truck, military, and specialty vehicle markets	54.0	43.0 1.26x	—
8/10/2005	Phillips & Temro (Morganthaler Partners)	Truflow Air Movements	Manufacturer of engine cooling fans for the construction and power generation markets	—	—	—
7/26/2005	Advance Auto Parts, Inc.	Lappen Auto Supply Co., Inc.'s auto parts division	19 auto parts stores in the greater Boston, MA market	—	—	—
7/21/2005	Platinum Equity	American Racing Equipment Inc.	leading manufacturer of high-performance automotive wheels to aftermarket customers in North America	40.5	—	—
7/15/2005	Pilkington	Autostock Distribution	Distributor of automotive replacement glass and aftermarket accessory products	—	—	—
7/7/2005	Dubin Clark & Company	B&M Racing and Performance Products, LLC	Manufacturer of performance drivetrain products and accessories	—	—	—
7/5/2005	International Truck and Engine Corporation (International Corporation)	Workhorse Custom Chassis, LLC and Uptime Parts, LLC (subsidiaries of GVW Holdings Corporation)	Workhorse is a major manufacturer of chassis for Class A motor homes, buses and walk-in trucks. Uptime Parts supplies replacement and aftermarket parts for the RV, truck and bus markets Workhorse serves	—	480.0	—
7/1/2005	Johnson Controls	Delphi Corp.'s battery product line	Includes Delphi's global starting, lighting, and ignition lead-acid battery operations	202.5	600.0 0.34x	—
6/30/2005	Eaton Corp.	Morestana	Mexico-based manufacturer of hydraulic lifters for automotive engine manufacturers and the auto aftermarket	8.0	13.0 0.62x	—

(1) Firm value represents amount of capital invested

(Pendergast, Continued from page 1)

joined PPL as a partner before going on “sabbatical” to become the CEO of MSD Ignition. The principals of PPL invested with Dan in MSD Ignition and through MSD in SuperChips.

Since then PPL has turned its focus almost exclusively to the auto aftermarket. Although the partners are not “car people”, they spend much of their time studying the market and searching for companies that might be suited for their distribution expertise. In particular, PPL is looking for small companies that have a strong brand name, product technology, and sell into the performance aftermarket.

Unlike private equity groups with transaction size requirements, PPL focuses primarily on companies’ potential rather than arbitrary size metrics. PPL believes this approach differentiates it from other private equity groups. Furthermore, PPL feels its most valuable contributions to a company are its management skills in the areas of working capital optimization, channel strategies, and the logistics of supply chains that extend to the Far East.

In the past five years, the firm has worked with a number of small companies looking to change ownership and/or to acquire the skills and capital needed to take their business to the next level. Many of these companies faced issues related to inventory control, new product development, establishment of distributor relationships, lender negotiations, and new market penetration.

Pendergast believes there are many opportunities for small companies serving the automotive aftermarket and many ways to help them realize these opportunities.

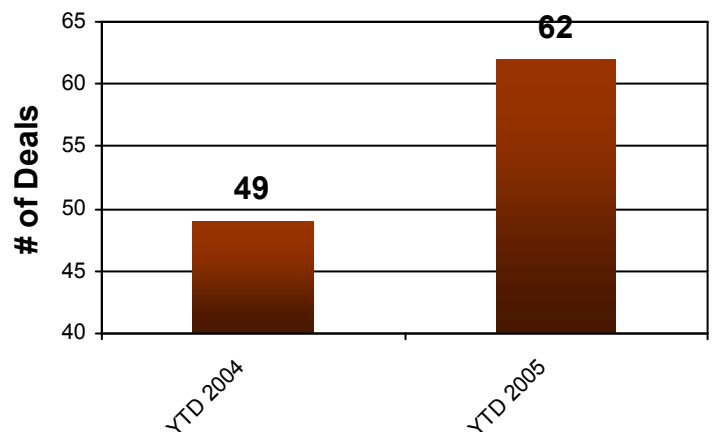
Aftermarket Deal Frenzy Continues

As we move towards the end of the third quarter, the auto aftermarket is on pace for another consecutive year of record breaking deal activity. In the year-to-date period ended September 20, transaction volume is up nearly 27 percent, with 62 deals closed.

Certain segments of the auto aftermarket have been performing especially well this year. For example, chemicals and care products, retail and distribution, and racing and performance segments have seen year-to-date transaction volume increases of 700 percent, 73 percent, and 66 percent, respectively. In addition, truck accessory transaction volume is up 80 percent over the last 12 months.

Private equity groups, with and without industry holdings, have been significantly more active on the transaction front this year. Specifically, there has been a 38 percent increase in financial sponsor-led transactions in year-to-date 2005.

Auto Aftermarket Transactions by Period



About Capstone

Capstone Financial Group is an investment banking firm assisting owners of middle market companies with their financial needs - including mergers and acquisitions, recapitalizations, private placements, divestitures, and other financial advisory services. Capstone is backed by a highly experienced and knowledgeable team of financial professionals with firsthand knowledge of starting, operating, growing, and selling middle market companies. Visit us online at www.capfg.com.

Selected Public Company Capitalization and Operating Figures
 (\$ in millions, except per share data)

Company	Enterprise Value					Last Twelve Months (LTM)			
	Price as of 9/23/05	Market Cap	Debt	Cash	Enterprise Value (1)	LTM Date	Revenue	EBITDA	Net Income
Manufacturers									
Tenneco Automotive Inc.	\$17.27	\$758.6	\$1,412.0	\$66.0	\$2,175.4	6/30/05	\$4,348.0	\$369.0	\$25.6
Standard Motor Products, Inc.	7.89	156.6	293.0	6.2	443.3	6/30/05	818.3	27.2	(4.9)
Aftermarket Technology Corp.	17.72	380.8	94.0	10.1	471.2	6/30/05	411.5	65.8	30.3
R&B, Inc.	10.24	183.6	34.8	5.6	215.1	3/26/05	254.8	34.5	17.2
Proliance International, Inc.	5.50	83.9	50.7	0.3	135.1	6/30/05	265.6	14.2	3.2
Wholesalers & Distributors									
Genuine Parts Company	\$43.04	\$7,491.6	\$500.9	\$260.5	\$7,856.6	6/30/05	\$9,420.4	\$724.9	\$411.8
TBC Corporation	34.37	772.3	272.2	1.4	1,087.2	6/30/05	1,913.8	105.3	41.3
LKQ Corporation	28.15	597.6	56.5	2.3	718.0	6/30/05	489.6	51.8	25.6
Keystone Automotive Industries, Inc.	31.90	507.9	1.1	5.9	515.5	7/1/05	561.4	31.5	15.5
The Coast Distribution System, Inc.	5.50	24.8	28.1	0.5	53.4	6/30/05	172.6	7.9	3.4
Retailers									
Autozone, Inc.	\$88.06	\$6,801.4	\$1,914.5	\$77.4	\$9,018.0	5/7/05	\$5,664.4	\$1,119.0	\$573.8
Advance Auto Parts, Inc.	39.56	4,330.5	479.7	175.9	4,701.4	7/16/05	4,020.5	493.2	219.8
O'Reilly Automotive, Inc.	28.20	3,153.2	101.1	36.5	3,217.8	6/30/05	1,870.2	268.2	132.8
The Pep Boys - Manny, Moe & Jack	12.88	696.9	469.3	12.7	1,153.5	7/30/05	2,255.0	104.2	(4.5)
CSK Auto Corporation	14.88	671.9	495.7	97.7	1,078.8	5/1/05	1,577.6	127.3	34.1

Selected Public Company Multiples and Operating Statistics

Company	Enterprise Value /					P / E Ratio	Margins		
	Revenue	EBIT	EBITDA	Free Cash Flow (2)	Net Income		Gross Margins	EBITDA Margins	Net Margins
Manufacturers									
Tenneco Automotive Inc.	0.5x	11.4x	5.9x	9.5x	84.9x	29.6	15.5%	8.5%	0.6%
Standard Motor Products, Inc.	0.5x	52.3x	16.3x	26.0x	NM	NM	21.9%	3.3%	NM
Aftermarket Technology Corp.	1.1x	9.2x	7.2x	9.3x	15.6x	12.6	25.1%	16.0%	7.4%
R&B, Inc.	0.8x	7.2x	6.2x	10.1x	12.5x	10.7	37.1%	13.6%	6.8%
Proliance International, Inc.	0.5x	16.1x	9.5x	18.7x	42.1x	26.2	20.0%	5.3%	1.2%
Mean	0.7x	19.2x	9.0x	14.7x	38.8x	19.8x	23.9%	9.3%	4.0%
Median	0.5x	11.4x	7.2x	10.1x	28.8x	19.4x	21.9%	8.5%	4.0%
Wholesalers & Distributors									
Genuine Parts Company	0.8x	11.9x	10.8x	12.3x	19.1x	18.2	31.3%	7.7%	4.4%
TBC Corporation	0.6x	14.0x	10.3x	10.0x	26.3x	18.7	37.4%	5.5%	2.2%
LKQ Corporation	1.5x	16.3x	13.9x	20.1x	28.0x	23.3	45.1%	10.6%	5.2%
Keystone Automotive Industries, Inc.	0.9x	22.3x	16.4x	20.6x	33.3x	32.8	43.8%	5.6%	2.8%
The Coast Distribution System, Inc.	0.3x	7.6x	6.7x	7.3x	15.5x	7.2	18.6%	4.6%	2.0%
Mean	0.8x	14.4x	11.6x	14.1x	24.5x	20.1x	35.2%	6.8%	3.3%
Median	0.8x	14.0x	10.8x	12.3x	26.3x	18.7x	37.4%	5.6%	2.8%
Retailers									
Autozone, Inc.	1.6x	9.1x	8.1x	10.5x	15.7x	11.9	49.1%	19.8%	10.1%
Advance Auto Parts, Inc.	1.2x	12.4x	9.5x	16.7x	21.4x	19.7	47.1%	12.3%	5.5%
O'Reilly Automotive, Inc.	1.7x	15.0x	12.0x	43.5x	24.2x	23.7	43.3%	14.3%	7.1%
The Pep Boys - Manny, Moe & Jack	0.5x	43.2x	11.1x	NM	NM	NM	25.6%	4.6%	NM
CSK Auto Corporation	0.7x	11.9x	8.5x	10.9x	31.7x	19.7	46.0%	8.1%	2.2%
Mean	1.1x	18.3x	9.8x	20.4x	23.2x	18.8x	42.2%	11.8%	6.2%
Median	1.2x	12.4x	9.5x	13.8x	22.8x	19.7x	46.0%	12.3%	6.3%

(1) Enterprise Value equals market cap, plus debt, minus cash

(2) Free Cash Flow equals EBITDA less capital expenditure

"NM" is not meaningful